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UNITED NATIONS CONFERENCE
ON THE APPLICATION OF SCIENCE AND TECHNOLOGY
FOR THE BENEFIT OF THE LESS DEVELOPED AREAS

Agenda Item: H.1

Finland

THE OVERALL APPROACH TO ECONOMIC PLANNING

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The overall approach to economic planning

by

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1. Planning for development is in the following report dealt with only in the meaning of general economic planning, i.e. the drawing up for governmental use of plans and programmes that aim at a "satisfactory" rate of economic growth. What is meant by the word "satisfactory" is capable of many interpretations. If underemployment of the labour force prevails, the word should mean a higher rate than otherwise, and, likewise, it should mean different rates in economies with different population growth.

2. In accordance with the principles that have to be followed by experts appointed by the UN, conditions of a political and institutional nature are assumed to be of no primary concern for the economic planners. Thus, if implementation of the economic plan made in consequence would lead to maintenance or widening or even shrinking of the scope for consumption choice, freedom for private investment and enterprise or freedom for individuals to choose their occupation the UN-planners should not change their recommendations. It is for the government to take the responsibility for the consequences in respect of measures that affect freedom in the society. The government must tell the planners what kind of plan-consequences it will disapprove in this respect.

3. This paper records some reflections that have slowly been growing in the mind of the author during a long period of activity as adviser to his own government and a four year's stay as an economist with the UN. It is not, and the author is not pretending that it is, more than an attempt to rationalise

planning on the basis of a rather vague idea about what is the main problem in counselling governments. It is a rather well-known characteristic of economists working in the capacity of advisers to governments that they from time to time feel an almost hopeless frustration because

(a) Plans and advices are not understood;

(b) Objections to plans are raised with reference to undefined and vaguely expressed "political realities" and/or lack of financing possibilities.

The idea on which the following thoughts are based is, that this frustration is the result of a conflict between the political and the economic way of looking at the different problems which in the final analysis, must be solved by the economists and cannot be solved by the politicians. In other words, economists should spend a lot more time than hitherto on trying to find ways and methods through which plans and projects of different kinds can be co-ordinated in the same overall approach of increasing the per capita rate of growth. Only under the impact of this genuinely social goal will it be possible for the politicians to meet the political hardships and hazards, the fulfilment of the plan in its different details in any case will be causing them. To the author it is obvious that, for instance, without the excellent work of ECLA aiming at bringing exactly this goal to the Foreground, the Latin-American free trade association would to-day still be only a plan on the desk of the economists.

4. From what is said under 3, it follows that there will be great losses if the scarce resources of international expert knowledge used for the benefit of planning are being split on different projects without first working out a central and general plan for development. Sectoral and regional plans, as well as individual projects, can not be appraised or rightly understood by the government without recourse to such a plan that indicates the place of the different details. This statement is in agreement with the fact that the main instrument of a government is the state budget and, therefore, efforts that aim at increased national savings ratios and rates of growth through planned investment policies, in many ways, have to be reflected in the budgetary policies of the developing countries.

5. In accordance with the above, the important problem of economic planning is the vertical interrelation between the

government at the top and the planners, down to the last technician working on an individual project. The horizontal problem of fitting into the development plan the different parts of it, in respect of regions, branches of industry, projects within the same industry, and so forth, can be successfully attacked, and the details approved by the government, only if the parts are cemented together by a general plan that is worked out in full co-operation with the government. If such a plan is well-founded on the afore-mentioned principles it can even be hoped that changes of political government will not substantially alter the implementation of the plan once made. In the following, an attempt is made to clarify these vertical stages of economic planning in order to give an idea of how, in practice, a general economic development plan should be built up.

6. The nine stages of economic planning listed below with short definitions show better than many detailed explanations the manyfold problem originating from the vertical interrelationship referred to above in paragraph 5.

Schedule of the stages of economic planning

1. FORECASTING	=Combination of forecast changes in independent (exogenous and institutional) factors influencing the domestic development
2. PROJECTION FOR THE PROGRAMMING PERIOD	=Evaluation of development of the national economy assuming no changes in the values of existing economic policy parameters, in order to estimate,i.a., magnitudes of major gaps such as in current external account, employment, state finances, monetary equilibrium, and financial flows
3. SUGGESTION ON COMBINATION OF TARGETS	=Suggestion on targets and limits of gaps and/or their consequences
4. ROUGH PLAN	=Identification of economic policy measures required and suggested aggregate impact values and timing to be adopted in order to reach proposed targets with evaluation of consequential developments and remaining gaps

5. POLITICAL LIMITING OF THE ROUGH PLAN	=Ascertaining of political upper and lower limits to aggregate impact values and sizes of gaps as well as of timing of measures
6. FINAL COMBINATION OF TARGETS	=Final set-up of noncontroversial targets that are permissible under the limiting political conditions laid
7. SUGGESTION ON COMBINATIONS OF MEANS	=Alternative means to achieve each desired impact value and proposed timing
8. ECONOMIC PROGRAMME	=Final combination of politically chosen means and their timing
9. PROJECTION ON THE BASIS OF THE ADOPTED PROGRAMME	=Estimate of developments of macro-aggregates (exports and imports, competitive imports, currency reserves, money supply, GNP, national income, state receipts and expenditure, disposable incomes, national expenditure and employment) and development of prices and earnings

NOTE. If not otherwise stated, there is, in addition to the limiting conditions to be included in the first suggestion on the combination of targets a quantified increase of the real national income, or a minimum increase that during the programming period is necessary for the fulfilment of certain conditions.

7. Some few words of explanation are necessary for the right interpretation of the schedule presented in paragraph 6. Statistical and econometric analyses of the past must, of course, always precede construction of a plan for the future. For the schedule it is assumed that this is done and that the planning work can start with forecasting of the exogenous variables, such as population and labour force growth and the demand for exports, and that, by the use of econometric models, a projection can be made of the domestic economy for the selected programming period. It has to be observed that none of the measures that might be in the final programme should be explicitly nor implicitly included in the models. Further, it is worth underlining that these two first important stages are, and should be handled as, an independent part of the whole. Even administratively they can be

separated from the planning organization, for instance, forecasts and projections could be requested from the central statistical offices or research institutes. It is important to stress this point since there is often, even among economists, a serious misunderstanding of the role of research work and studies which are no more than attempts to make projections in accordance with stage 2. Programming measures are sometimes included in the models and the projection results presented as some kind of programme. The frustration felt by such "planners", referred to in paragraph 3. can not be avoided, as obviously no government can take measures on the basis of such "programmes". This, however, is in no way diminishing the value of the necessary, and many times excellent work done by both UN and national and private research institutions for improving technique, models and methods of presentation of such projections. But the limitations of that kind of work should be kept in mind.

8. Stages 3. and 4. of the schedule above form the first part of the ordinary planning work. The rough plan has to be based on targets and limiting conditions to changes of aggregate parameter values, which, in their turn, have to be chosen on the basis of their impact on the economic development in respect of the major gaps in accordance with the projection made. Also this work is a job for economic experts only and should be done uninfluenced by political considerations.

9. For political approval of the combination of targets that have to form the basis for the programme it is necessary to have thorough discussions of the rough plan and its consequences with the deciding authority, which, in the case of general economic planning, has to be the government. Stages 5. and 6. of the schedule might also need several tedious meetings with different circles, the support of which is necessary for making the programme politically possible to adopt. Administratively we find at these stages the place for advisory economic councils to the government with representatives of different pressure groups. However, it should be observed that, at this stage of the planning work, it is recommended that the discussions are still limited to targets and the aggregate impact values of different economic measures. During this process it should be decided, for instance, by how much domestic voluntary and forced saving and inflow of external

capital should be raised in order to diminish the gaps in the external account and in the state budget. The total increase necessary in tax revenue is another impact value to be chosen, and so on. But, discussions on the final means by which these values can be achieved should, if possible, be avoided.

10. Stage 7. of the schedule is again a job for the expert planners with a thorough knowledge of institutional and legal set ups. Many combinations of alternative means are necessary in order to give the government a wide range of choice. It is essential that these combinations are complete with calculated impact values and, if possible, econometric tests of their combined effect in respect of targets laid and limiting conditions set up, i.a., in respect of price level and employment.

11. The launching of the final economic programme should preferably be accompanied by a projection of the consequences and results of the economic programme as indicated in stage 9. of the schedule presented above.

12. Finally, it is worth stressing that balancing the state budget which, as stressed in paragraph 4, is the main instrument of economic policy of the government, is setting the frames and limits to spending money without which development programmes are worthless. Only on the basis of such an overall approach that is implied in the list of planning stages presented above will such programmes be worked out with satisfactory close understanding between governments, planners and advisers and brought into harmony with the idea of a balanced budget.

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SUMMARY

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Summary

The author underlines in his paper that, for economic planning aimed at increasing the rate of economic growth, it is necessary first of all to solve the problem arising from the vertical interrelation between the government on the top and the planners, down to the last technician working on an individual project. Different special plans and projects can be rightly understood by the government, only if they are cemented together by a central and general plan for development worked out in full co-operation with the government. If such a plan is well-built, it can even be hoped that changes in political government will not substantially alter the implementation of the plan once made.

In order to clarify the vertical stages that in practice, have to be taken care of in economic planning for the drawing up of development programmes, the author presents the following schedule:

Schedule of the stages of economic planning

1. FORECASTING	=Combination of forecast changes in independent (exogenous and institutional) factors influencing the domestic development
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Finally, the author stresses that the main economic policy instrument of a government is the state budget. Thus, efforts that aim at increased national savings ratios and rates of economic growth through planned investment policies must in many ways be reflected in budgetary policies too. Hence, without an overall approach to economic planning and a close understanding between governments, planners and advisers development programme will not be in harmony with the overall frames and limits for spending money set up by a balanced budget.

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